Insights
COVID-19 and Private Equity Investment in Health Care Delivery
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Private equity acquisitions of health care companies have grown rapidly over the past decade. The increasing ownership of health care delivery by private equity has raised concerns about access, quality, and health care spending. The coronavirus disease 2019 (COVID-19) pandemic, which has threatened the financial viability of health care providers across the country, has created an urgent need for capital among practices and hospitals—and, along with it, further opportunities for private equity involvement. With private equity poised to play a substantial role during and after the pandemic, the implications for patient care and societal resources are an important domestic policy issue.

A Preexisting Condition

Private equity firms use capital from institutional investors and individuals to purchase ownership stakes in hospitals and physician practices. Private equity firms usually take full or partial control of the hospital or practice and sell acquisitions for a profit typically within 3 to 7 years. Health care delivery in the US is considered relatively inefficient in many areas, which creates an opportunity to cut costs and capture savings for private equity. Also, the fragmentation of care delivery in many markets is ripe for a classic private equity strategy—the consolidation of small organizations under one management company to create economies of scale and garner higher prices through market power.

Emerging evidence suggests that some concern about private equity–owned health systems is warranted. Following private equity acquisitions, hospitals charged more and reported larger profits than non-private equity–owned hospitals. Compared with similarly sized and located hospitals, private equity–owned hospitals tended to have lower patient satisfaction and lower full-time-equivalent employees per occupied bed. Large hospital chains with private equity affiliations have had difficulty meeting loan obligations; the high levels of debt these health systems incurred have reportedly created instability in local health markets. Recent evidence has also connected private equity with surprise billing practices in hospitals, leading to congressional investigations. Finally, the recent, widely publicized closures of private equity–owned hospitals, including Hahnemann University Hospital in Philadelphia, have raised concerns that private equity firms may look to hospital acquisitions as real estate investments—closing hospitals along the way that may serve largely low-income patients.

Private equity activity has been observed across medical specialties, raising fears that the desire for short-term returns for private equity firms may result in profit-motivated referral patterns, lost physician autonomy, and diminished long-term investments in practice stability and quality.

Implications of COVID-19

According to the Thomson ONE database, US private equity deals announced in health care have steadily increased, peaking at 94 deals in the first quarter of 2018. Despite major drops in other national financial indicators, private equity activity in health care has remained relatively active during the pandemic. The fourth quarter of 2020 saw a total of 86 deals, more than any other fourth quarter in the last 20 years. The 153 private equity deals in health care that were announced in the

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second half of 2020 cover a range of health care subsectors: 98 (64.1%) in providers and services, 32 (20.9%) in equipment and supplies, 10 (6.5%) in pharmaceuticals, 8 (5.2%) in hospitals, and 5 (3.3%) in biotechnology.

While the pandemic led to contractions in some capital markets in its early months, markets are recovering, and the industry currently has substantial amounts of unspent capital. Several billion-dollar deals in recent months suggest continued investor interest in health care.

A key factor that may accelerate private equity acquisitions in health care is the financial distress hospitals and physician practices are experiencing. Hospitals and health systems have lost, collectively, billions of dollars in revenue, which likely will have a disproportionate impact on small and rural hospitals. Vulnerable hospitals may look to private equity for immediate access to resources. Likewise, many physician practices, especially in primary care, are experiencing significant economic difficulty despite modest federal support. In a survey of Massachusetts providers from May 2020 to June 2020, respondents were asked what they would do with their practice in the foreseeable future without additional financial assistance. One-third of independent primary care providers selected “sell the practice (eg, to private equity firm)” as one of their considerations.5

Along with acquiring physicians’ practices, private equity firms are seeing digital health as a new investment opportunity in care delivery. Digital health companies in the US raised an estimated $12 billion from private equity and venture capital in 2020, the highest annually raised amount within the past decade.6

**The Role for Policy Makers**

Vigilance by policy makers is increasingly required, especially as health care delivery organizations across the country receive relief aid for the federal government. While many private equity–owned health care organizations did not qualify for some financial assistance streams under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), an analysis shows private equity companies found alternative routes to federal funding during the pandemic—borrowing at least $1.5 billion from the US Department of Health and Human Services (HHS) with more than 40 000 loans disclosed.7

Because of the intricacies of many private equity acquisitions, there is currently little transparency regarding which health care organizations are private equity owned. A comprehensive list of private equity–owned organizations in the US is critical so that regulators and the public can evaluate the full scope of private equity activity. States may want to pass legislation requiring greater oversight. For example, the California State Legislature introduced a bill that would require private equity firms to obtain consent from the California Attorney General before acquiring a health system, although the bill is now stalled. Policy makers should monitor for fraud and abuse, irregular financial handlings, and poor quality of care, as well as investigate potential offenses. They should also ensure that federal assistance to a private equity–owned company is not a direct payment to a private equity firm.

The growing presence of private equity in health care coupled with pandemic-related financial peril for many health care organizations presents an opportunity for private equity firms to more meaningfully influence the financing and delivery of care across the country. While added capital may benefit organizations at risk of bankruptcy, the incentives of private equity may be at odds with providing affordable, high-quality, and equitable care.
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REFERENCES


